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SUBJECT: ENERGY HIGHLIGHTS - DECEMBER 2006

¶1. Summary. The Ministry of Energy and Mineral Resources (MEMR) announced on December 13 that 18 companies and consortia won tenders for 18 oil and gas blocks across Indonesia, committing \$235.8 million in exploration funds over three years. On December 20, the Ministry of Finance signed memoranda of understanding (MOUs) with local banks to provide subsidized financing to plantations in support of the Government of Indonesia's bio-energy initiative. The GOI sold a 5.3% stake in gas state-owned gas distribution company Perusahaan Gas Negara (PGN) on December 15, earning Rp 2.1 trillion (\$233 million) from the sale. Minister of State-Owned Enterprises Sugiharto swore in a new Board of Commissioners for state-owned oil and gas company Pertamina on December 14. Pertamina raised the wholesale price of liquefied petroleum gas (LPG) supplied to medium and large manufacturers by 10.8 percent on December 13. On December 12, Pertamina announced it had decided to obtain \$500 million in loans from local banks to finance eight oil and gas projects in ¶2007. Severe flooding in Aceh and North Sumatra provinces near the end of December affected oil and gas operations of Pertamina and ExxonMobil. On December 18, state electricity company Perusahaan Listrik Negara (PLN) opened tenders for 25 coal-fired power plant projects outside of Java. Local energy and electricity company Truba signed an MOU with Hong Kong-based Shanghai Electric Generation Group on December 14 to jointly build and operate a \$200 million coal-fired power plant in Kuala Tanjung, North Sumatra. On December 19, Pertamina's exploration and production subsidiary, Pertamina EP, the Korean oil and gas firm Kodeco Energy, and Indonesian energy company Lapindo signed seven supply contracts for 695.8 trillion British thermal units (TBTU) of gas worth \$2.8 billion, of which roughly 79 percent will be allocated to gas-fired power plants in Java. Bermuda's Kalimantan Gold Corporation finalized an option deed with Australia's Oxiana on December 18 for cooper and gold prospecting in Kalimantan. This report uses an exchange rate of Rp 9,025/USD. End Summary.

GOI Announces Winners of Oil And Gas Tenders

¶2. The Ministry of Energy and Mineral Resources (MEMR) announced on December 13 that 18 companies and consortia won tenders for 18 oil and gas blocks across Indonesia through a direct offer system. A MEMR press statement noted that the companies have committed investments of \$235.8 million over three years, including \$25.5 million for geological and geophysical studies, \$37.8 million for three-dimensional seismic surveys of over 1,780 square kilometers, \$33.6 million for two-dimensional seismic surveys of over 9,170 square kilometers, and \$138.9 million for drilling 32 exploration wells.

Table 1: Exploration Blocks Awarded

Block	Area	Onshore/ Offshore	Winner
Duyung	Natuna	Offshore	Transword Exploration
Pari	Natuna	Offshore	Indoreach Exploration
Tonga	Sumatra	Onshore	Mosesa Petroleum, Kencana Surya Perkasa, Petros
Batu Gajah	Sumatra	Onshore	Ranhill Jambi Inc.
Lemang	Sumatra	Onshore	Hexindo Gemilang Jaya, Indelberg
Batanghari	Sumatra	Onshore	Gregori Gas Perkasa, CNOOC
Karang Agung	Sumatra	Onshore	Odira Energy Perkasa
Sekayu	Sumatra	Onshore	Star Energy Holding
Alas Jati	East Java	Onshore	Insani Bina Perkasa
North Kangean	East Java	Offshore	Petro Java International Inc.
Sibaru	East Java	Offshore	Mitra Energy Ltd, Pearl Oil

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West Sangata	East Kal.	Onshore	Kalimantan Kutai Energy
Wain	East Kal.	Onshore	Pandawa Prima Lestari
Kutai	East Kal.	Onshore and Offshore	Ephindo, Serica Energy
Buton	Southeast Sulawesi	Onshore and Offshore	Japex, Premier Oil, Kufpec
Budong	West Sulawesi	Onshore	Gema Tera, Manley NV, TGS Nopec
Kuma	West Sulawesi	Offshore	ConocoPhillips, Stat Oil ASA
Karana	Makassar Strait	Offshore	Pearl Oil

Source: Media Accounts.

13. An initial GOI offer of 21 blocks through the direct offer system drew 23 bids from 8 consortia and 15 companies, including several foreign companies such as ConocoPhillips, Stat Oil ASA, Premier Oil, and Kufpec. According to the terms of the tenders, the GOI will receive \$31.5 million in signing bonuses from the 18 investors 30 days after finalizing actual contracts.

GOI Signs Biofuel MOUs With Local Banks

14. On December 20, Minister of Finance Sri Mulyani Indrawati signed memorandum of understanding (MOUs) with state-owned Bank Mandiri, Bank Rakyat Indonesia, Bank Bukopin, and two regional banks, to provide up to Rp 25.6 trillion (\$2.8 billion) for the finance the

development of agricultural crops for bio-energy and the revitalization of existing plantations. The banks will disburse the loans in stages over the next few years according to plantations' needs. Under the terms of the MOU, interest rates on loans to plantations will be capped at 10%, with the GOI subsidizing any further interest charges. The GOI pledged in its Fiscal Year 2007 budget to provide interest-rate subsidies of up to Rp 1 trillion (\$111 million) to support the program. Coordinating Minister for the Economy Boediono, Minister of Agriculture Anton Apriyantono, Bank of Indonesia Governor Burhanuddin Abdullah and local government heads witnessed the MOU signing.

Table 2: Loan Commitments for Biofuel Program

Bank	Loan Commitment (in Rp trillion)
Bank Rakyat Indonesia (1)	12.0
Bank Mandiri (2)	11.1
Bank Bukopin (3)	1.0
BPD Sumbar (4)	1.0
BPD Sumut (5)	0.5

Source: Ministry of Finance

(1) Fourth largest bank by asset; state-owned; well-known for micro financing.

(2) Largest bank; state-owned.

(3) Fifteenth largest; partly owned by government.

(4) West Sumatra's Regional Development Bank.

(5) North Sumatra's Regional Development Bank.

GOI Divests Shares In State-Owned Gas Firm

¶5. On December 15, the GOI divested itself of a 5.3% stake in state-owned gas distribution firm Perusahaan Gas Negara Tbk (PGN), raising Rp 2.1 trillion (\$233 million) in proceeds. With the divestment, the GOI's stake in PGN decreased to 54.1%. The GOI had hoped to raise as much as Rp 3 trillion (\$332 million) from the sale to plug an expected budget shortfall this year of Rp 40 trillion (\$4.4 billion). The GOI raised Rp 1.2 trillion (\$133 million) from

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the company's initial public offering in 2003, but cancelled plans to sell 7.3% of PGN's shares in 2005 following strong opposition in parliament.

GOI Appoints New Pertamina Board

¶6. On December 8, Minister of State-Owned Enterprises Sugiharto swore in retired Indonesian Military General Endriartono Sutarto as the new Chairman of the Board of Commissioners of state-owned oil and gas company Pertamina. Sugiharto also swore in two other new members of the Board of Commissioners: Ministry of State-Owned Enterprise Assistant Deputy for Strategic Industries Irnanda and OPEC Representative Board Chairman Maizar Rahman. Sutarto replaced Martiono Hadiano, while the other two new members replaced Energy and Mineral Resources Department Director General of Electricity and Energy Usage J. Purwono, and Iin Arifin Takhyhan, who was appointed as Pertamina Vice CEO last March. According to press reports, the GOI decided on the new Pertamina board lineup on December 5 during a closed shareholders meeting with President Susilo Bambang Yudhoyono.

Table 3: Pertamina's Board of Commissioners

Position	December 2006	Previous
Chief Commissioner	Endriartono	Martiono Hadiano
Independent		
Commissioner	Umar Said	Umar Said
Commissioner	Muhammad Abduh	Muhammad Abduh
Commissioner	Irnanda	J. Purwono

Source: Ministry of State Owned Enterprises

Pertamina Raises Industry LPG Price

17. Effective December 13, state-owned oil and gas company Pertamina raised the price of bulk liquefied petroleum gas (LPG) for medium and large manufactures by 10.8 percent from Rp 5,280 (\$0.58) per kilogram (kg) to Rp 5,852 (\$0.64) per kg. Pertamina spokesman Toharso said that the move would cut losses Pertamina incurs by selling LPG below the price it purchases it from suppliers. Pertamina said it would try to avoid increasing the price of LPG for households and smaller industries through the end of the year.

Pertamina To Secure Local Loans For Eight Projects

18. During its December 12 general shareholders meeting, Pertamina management agreed to secure a loan of \$500 million from a local bank consortium including Bank Mandiri and Bank Negara Indonesia (BNI). The proceeds of the loan will finance eight oil and gas projects commencing in 2007. Newly appointed Pertamina Board of Commissioners Chairman Endriartono Sutarto said that the bank consortium had initially offered \$1.4 billion, but Pertamina decided to obtain only \$500 million. Pertamina Director for Finance Frederick T. Siahaan told the press that a portion of the loan proceeds will finance the Cepu Block development project (\$50 million), the construction of the Kamojang Geothermal Power Plant Unit 4 (\$80 million), and the development of Pondok Tengah field in Bekasi, West Java. Pertamina will also use a portion of the loan to purchase eight 70,000 deadweight tonnage capacity oil tankers; build a primary transit terminal in Tuban, East Java; and revamp several oil refineries, including those in Balongan and Cilacap on Java Island, and another in East Kalimantan.

Aceh Flooding Affects Oil Production

19. Severe flooding in Aceh and North Sumatra Provinces starting on December 22 has significantly affected Pertamina's Rantau upstream oil production operations located in the border area of the two provinces, according to the company. Pertamina partially suspended operations in Rantau where, as of December 25, 98 percent of its facilities were flooded by water. Rantau is a mature Pertamina's oil and gas field operation, which has been supplying gas to North Sumatra's Belawan power plant at a declining rate. The flooding has also affected facilities at the Arun block gas fields in Aceh owned

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by ExxonMobil. In spite of the floods, ExxonMobile has been able to continue its production activities at full capacity.

Tender For Coal-Fired Power Plants

10. State-owned electricity company Perusahaan Listrik Negara (PLN) on December 18 opened tenders for the construction of 25 coal-fired power plants outside Java Island. The tenders are part of the GOI's "fast track" program to build an additional 10,000 watts of electricity generating capacity by 2009. Pre-qualification documents for construction of power plants on Java Island allow tender participants to provide 85 percent of project funding in the form of export credits. However, the pre-qualification invitation for coal-fired power plants outside Java Island allows tender participants to propose financing through any form of export credit scheme or local financing to cover the entire project cost. PLN Director for Finance Parno Isworo, however, said that funding schemes for the construction of coal-fired power plants outside Java Island are still under discussion. Head of the "fast track" program's implementation team Yoga Pratomo added that PLN would cover some of the projects' cost by issuing bonds through Indonesian banks. PLN raised \$1 billion through an international bond issuance in October.

PLN Appoints Contractor To Build Power Plant

¶11. On December 14, publicly listed engineering and electricity company Truba Alam Manunggal (Truba) and Hong Kong-based Shanghai Electric Generation Group Co. Ltd. (SEG) signed an MOU agreeing to jointly build and operate a 2x125 megawatt, \$200 million coal fired power plant in Kuala Tanjung, North Sumatra. PLN directly appointed SEG to develop the power plant. Head of the local mining and energy office Washington Tambunan said that PLN made the direct appointment due to the acute electricity crisis in the province. Truba President Director Arifin Wiguna said construction of the power plant would start in January 2007 and begin commercial operation in ¶2008. He noted that his company would soon sign an agreement whereby PLN would purchase electricity from the plant at \$4.5 cents per kilowatt-hour (KwH). Earlier in November, Truba and SED signed another MOU with local company Central Pertiwi Bahari to build a 2x25, \$60 million coal fired power plant in North Lampung.

Natural Gas Sellers And Buyers Sign Agreements

¶12. Pertamina subsidiary Pertamina Eksplorasi & Produksi (Pertamina EP), Korean oil and gas firm Kodeco Energy, and Indonesian energy company Lapindo signed seven supply contracts on December 19 for 695.8 trillion British thermal units (TBTU) of gas, of which roughly 79 percent will be allocated for gas-fired power plants in Java. Total value of the agreements is \$2.8 billion. Upstream oil and gas authority BP Migas Chairman Kardaya Warnika said he hopes the agreements will encourage other production sharing contracts (PSCs) aimed at meeting domestic gas supply requirements.

Table 4: Domestic Gas Contracts Signed

Agreement	Gas Volume (TBTU)
Pertamina EP - Sumber Petirindo Perkasa 12-year period starting 2009 Central Java	219
Pertamina EP - Cikarang Listrindo 21-year period starting 1995 (Amended) West Java	394
Kodeco Energy - MKS Expected to start 2007 East Java	n/a
Kodeco Energy - PGN 6-year period	51.3
Lapindo - Indogas Kriya Dwiguna 10-year starting 2007	10.2

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Pertamina EP - Pertiwi Nusantara	4.3
Pertamina EP - Fajar Surya Wisesa	17.0

Source: BP Migas

¶13. Elsewhere, BP Migas said in a December 19 statement that it had facilitated a Cargo Loading Agreement between PT Pertamina EP and state-owned fertilizers PT Pupuk Iskandar Muda (PIM) in Aceh and PT Pupuk Kalimantan Timur (PKT) in East Kalimantan. Under the deal, Pertamina will swap a total of 8.9 TBTU of gas or about 3 cargoes of liquefied natural gas (LNG), which was previously allocated for PKT, to support the operation of PIM. According to the BP Migas statement, the swap will begin in January 2007 and support the operation of the PIM fertilizer plant for six months.

Kalimantan Gold And Oxiana Close Deal

¶14. According to press reports, Bermuda mining company Kalimantan Gold Corporation Limited (KGC) announced on December 18 that it had finalized an option agreement with Australian copper and gold mining company Oxiana Ltd. for exploration of Kalimantan's copper and gold prospects. The agreement covers three key areas, Baroi, Beruang and Mansur, which form part of KGC's 941 square kilometer holdings in Central Kalimantan. Under the agreement, Oxiana will reportedly initially invest \$2.5 million to drill 12 deep prospecting holes over a period of twelve to eighteen months. Oxiana then has an option for taking a 40 percent stake in completing a pre-feasibility study and an option for a 66.7% stake for completing a bankable feasibility study. If any of the projects proceed to the mine development stage, the deed allows Oxiana to provide significant funding assistance for financing KGC's share of mine development. KGC reportedly starting working on the Kalimantan project in 1996, and has reportedly invested to date roughly \$12 million for the drilling of 70 prospecting holes.

PASCOE